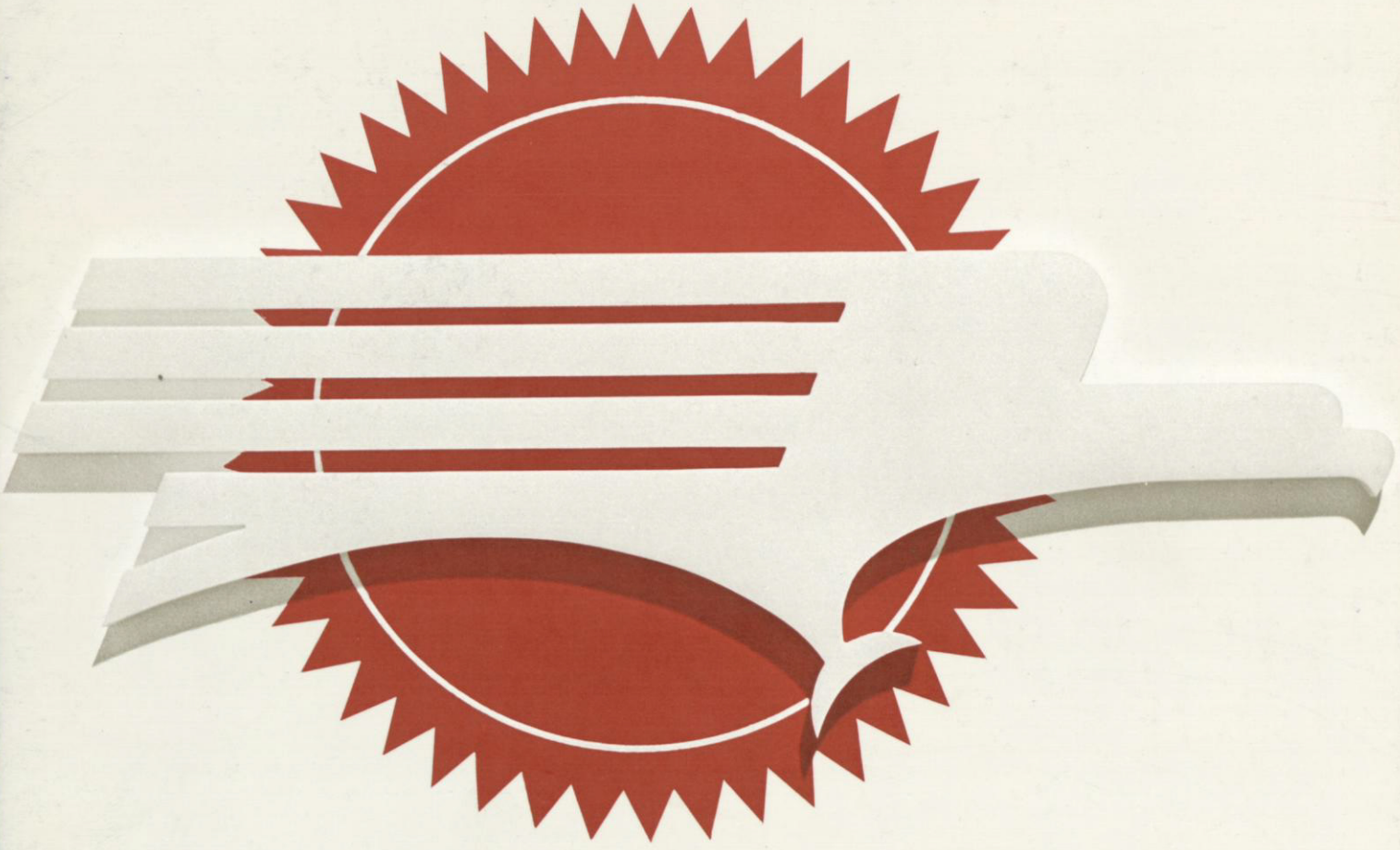
CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE



MISSOURI PACIFIC RAILROAD ANNUAL REPORT 1969

Missouri Pacific System

Annual Report for the year ended December 31, 1969

Consolidated Financial and Operating Highlights

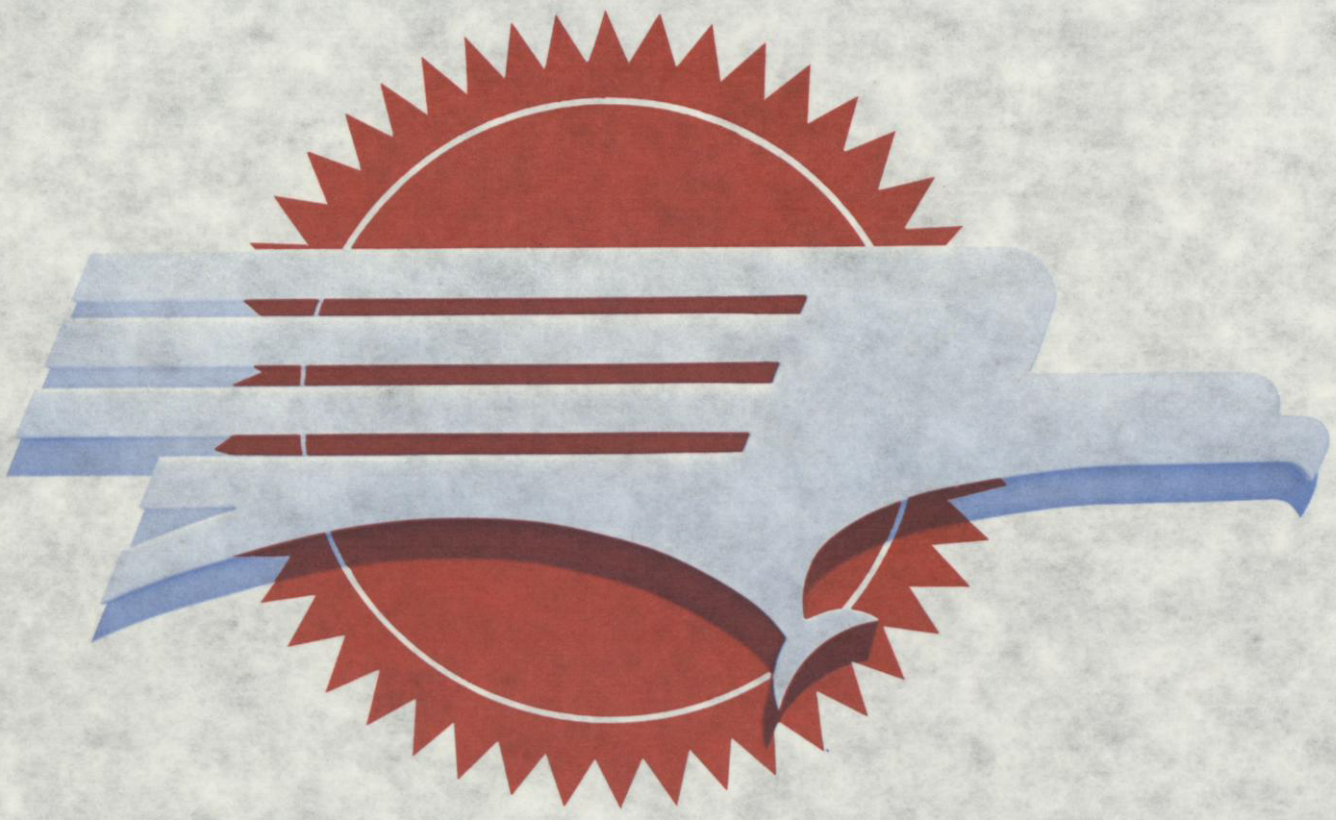
Income and Expense Items	1969	1968
Operating Revenues	$495,258,000	$445,749,000
Operating Expenses	387,101,000	350,612,000
Operating Ratio (Rail Line)	75.5%	76.0%
Income Available for Fixed Charges	58,548,000	53,377,000
Times Fixed Interest Earned	2.4	2.3
Net Income Before Extraordinary Item —		
In Conformity with I.C.C. Accounting Principles	21,287,000	19,187,000
Adjusted to Generally Accepted Accounting Principles	14,140,000	11,682,000
Extraordinary Item		2,941,000
Net Income (Including Extraordinary Item) —		
In Conformity with I.C.C. Accounting Principles	21,287,000	22,128,000
Adjusted to Generally Accepted Accounting Principles	14,140,000	14,623,000
Cash Dividends per Share — Class A and B Stocks	5.00	5.00

See Page 12 for Information Relating to the Class A and Class B Capital Stocks of the Company

Financial Position		
Gross Capital Expenditures	$ 60,974,000	$ 59,921,000
Depreciation and Retirements Charged to Income	36,349,000	35,915,000
Working Capital	25,169,000	26,689,000
Long Term Debt, including amount due within one year	729,050,000	717,452,000

Freight Statistics		
Average Miles of Railroad Operated	11,840	11,463
Revenue Ton Miles (1,000's)	34,371,285	31,619,138
Revenue per Ton Mile (cents)	1.28	1.25

Employees		
Total Amount of Payroll	$212,053,000	$190,350,000
Average Annual Wages	8,908	8,668
Average Number of Employees	23,804	21,959



MISSOURI PACIFIC RAILROAD COMPANY

Transfer Agents

UNITED STATES TRUST COMPANY OF NEW YORK
Transfer Agent
Class A Stock, 45 Wall Street
New York, N. Y. 10005

THE BOATMEN'S NATIONAL BANK OF ST. LOUIS
St. Louis Transfer Agent
Class A and B Stock, 300 No. Broadway
St. Louis, Mo. 63102

Registrars

MANUFACTURERS HANOVER TRUST COMPANY
Registrar
Class A Stock, One Whitehall Street
New York, N. Y. 10015

ST. LOUIS UNION TRUST COMPANY
St. Louis Registrar
Class A and B Stock, 510 Locust Street
St. Louis, Mo. 63101

Annual Meeting of Stockholders

The Second Tuesday in May
General Offices
Missouri Pacific Building
St. Louis, Mo. 63103

To Our Stockholders:

The Missouri Pacific System had a good year in 1969 as far as improvement in gross freight revenues and freight ton-miles were concerned. Consolidated net income before extraordinary items was 10.9 per cent higher than in 1968. Net income after extraordinary items decreased from $22,128,000 to $21,287,-000. Despite increased costs for labor, supplies and materials, MoPac managed to improve its operating efficiency through control of expenses and prudent investment in modernization projects. Solid progress was made in improving service to our customers.

We continued to place high priority on development of our intermodal capabilities and to invest in the modern facilities necessary to handle this type of business efficiently. As a result, MoPac enjoyed above average gains in piggyback and container traffic. A favorable decision by the Civil Aeronautics Board on our air freight forwarder application would greatly enhance our abilities to extend total transportation and distribution service to shippers in our 12-state, 12,000-mile territory.

Numerous improvements were made in service, including new trains and schedules, pre-blocking and run-through agreements with connecting railroads, and the continued improvement of facilities at key terminals.

During 1969 MoPac began installation of its Transportation Control System (TCS). TCS, more complex than any commercial management information system now in existence, will utilize computers and modern electronic communications to provide MoPac with improved control of every freight car moving on the system. It will be several years before TCS is in full operation but we and our customers already are experiencing benefits in the areas where the first segments have been put into operation. We believe TCS may well be the most revolutionary development in railroading of this century.

1969 was a good year, but traditional problems plague the industry

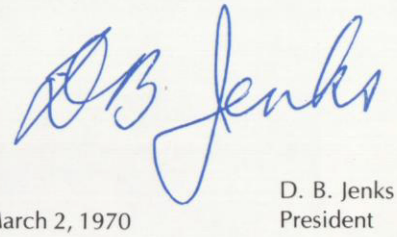
The gains of 1969 are dimmed somewhat by a number of traditional problems which block even greater development of MoPac and the railroad industry.

Foremost is the industry's abysmally low rate of return on investment which remained below 3 per cent in 1969. Such a low rate of return makes it impossible to generate from within the capital necessary to improve the car supply and carry out other improvement projects. As a result, our capital improvement program must be financed partially through loans and our debt grows larger. Freight rate increases granted in 1968 and on a conditional basis in late 1969 have been entirely absorbed by higher labor costs and will not offset further wage increases anticipated in 1970. The increases have been strictly defensive and have not improved the industry's economic health.

National transportation policy still is rooted in the past and places the railroads at a competitive disadvantage. The railroad industry pays its own way while fighting for traffic against competitors who receive hundreds of millions of tax dollars in the form of subsidies. At the same time, a mass of antiquated regulations restricts the railroads' abilities to offer more attractive prices and additional services.

Railroading is a labor-intensive industry where more than half of revenues are consumed by wages and fringe benefits. Efforts to improve efficiency through technological innovation and more flexible service often are blocked by work-rules which have outlived their historic purpose or which are created to protect unnecessary positions. Strike-threats from numerous labor organizations are frequent, and when carried out, are costly both to the Company and to the public interest.

Despite these problems, we believe the long-range prospects of the railroad industry and of MoPac are good. Eventually, a better informed public will demand solutions as they realize the important role the railroads will continue to play in our society.



D. B. Jenks
President

March 2, 1970

MoPac Posts Gains in Income And Revenue

In 1969 the Missouri Pacific System consolidated financial statements include, for the first time, the accounts of the Chicago & Eastern Illinois System. C&EI's revenues and expenses are included in the consolidated statement of income subsequent to June 5, 1969, the date on which Missouri Pacific's ownership of the C&EI increased to more than 50 per cent. Prior to that date the investment in the C&EI is reflected in the consolidated financial statements on the equity method of accounting.

Consolidated net income before extraordinary items for the Missouri Pacific System rose to $21,287,000 in 1969, from the $19,187,000 recorded in 1968. It should be noted that the railroad also had an additional $2,941,000 in nonrecurring extraordinary income in 1968 as a result of changes in accounting methods prescribed by the I.C.C. This accounting change is an estimate of revenue earned on traffic which had been delivered off line but had not reached its destination by the end of the period. For the sixth consecutive year, all MoPac stockholders received a cash dividend of $5 per share.

Operating revenues for the year were $495,258,000 (including $16,913,000 of the C&EI), an increase of $49,509,000. Operating expenses amounted to $387,-101,000 (including $15,894,000 of the C&EI), an increase of $36,489,000.

Freight revenue rose 12.6 per cent and freight ton-miles showed a gain of 8.7 per cent from 1968.

Cash and Debt

The Missouri Pacific System's consolidated cash and temporary cash investment position amounted to $41,051,000 on December 31, 1969, an increase of $1,190,000 from the $39,861,000 at the end of 1968. Working capital declined $1,520,000 from $26,689,000 on December 31, 1968, to $25,169,000 at the close of 1969.

Consolidated funded debt, including debt due within one year, was $729,-050,000 at year's end as compared to $717,452,000 on December 31, 1968. Equipment obligations issued during the year totaled $21,675,000 while repayments amount to $24,660,000. However, equipment debt of $15,263,000 acquired in connection with the acquisition of the C&EI, resulted in a debt increase of $12,278,000.

Capital improvement expenditures of $60,974,000 during 1969 brought total outlays for the period 1961–69 to $532,-180,000. MoPac spent $59,921,000 on capital improvements in 1968.

Intermodal Services Show Growth and Refinement

MoPac continued to refine its intermodal services during the year while showing substantial growth in piggyback, containerization and truck traffic. The Company's efforts to evolve into a total transportation agency, utilizing all possible forms of transportation, received widespread and favorable publicity.

Trucking

Missouri Pacific Truck Lines, Inc. and Texas & Pacific Motor Transport, Inc., both wholly-owned subsidiaries, reported gross revenues of $26,079,000, a gain of $5,413,000 from 1968. Net income rose to $624,000 from the $570,000 recorded in 1968. The truck companies purchased 263 pieces of equipment during the year, at a cost of $2,200,000. Another 372 units are on order for 1970 at a cost of $3,500,000. Completion of the 1970 purchase program will bring the size of the fleet to 3,750 units.

During the year, the truck lines succeeded in attracting more over-the-highway business, including federal mail contracts, and in receiving authority to operate over more routes. Because of their railroad ownership, the truck lines continue to be handicapped by numerous unrealistic governmental restrictions. Progress has been made in getting some of these restrictions lifted.

Piggyback

The railroads, nationally, showed a growth rate of less than 2 per cent in piggyback business. MoPac, a leader in piggyback growth and volume, recorded an increase of better than 10 per cent.

MoPac's piggyback service capabilities were dramatized this year with the creation of the Eagle Piggyback Fleet, a set of five expedited piggyback trains linking Chicago, St. Louis and key Texas cities.

Piggyback handling facilities either were constructed or expanded at Dallas, Longview, Corpus Christi and Odessa, Texas, at Kansas City, Chicago, St. Louis and Dupo, Illinois. A new merchandise freight terminal also was constructed at Odessa. In 1970 we plan to complete a new piggyback installation at Memphis and to complete both a new piggyback ramp and merchandise freight terminal at Addis, Louisiana. A terminal building at St. Louis is scheduled for extensive renovation.

Containerization

Container traffic, though still small in comparison to total freight volume, accelerated in 1969 and could eventually equal piggyback volume. MoPac handled 4,475 container loads in 1969, more than triple the total for 1968. The bulk of this traffic was handled through West Coast ports which we reach through competitive interline schedules.

Considerable business will eventually develop within our service area as container facilities are constructed and improved at Gulf Coast ports. MoPac serves 11 Gulf Coast ports directly.

In September, a MoPac team visited Japan and other Pacific points to evaluate the container traffic potential in that important trade area. Meanwhile, a new sales manager-intermodal services for the Pacific Region will co-ordinate our intermodal operations from a base in San Francisco.

Missouri Pacific Airfreight

It is possible that the Civil Aeronautics Board will consider this year our application for authority to operate Missouri Pacific Airfreight, Inc., a subsidiary of Missouri Pacific Truck Lines. This company was formed in December, 1967. The CAB is to open hearings on the first of three similar railroad applications on March 31, 1970. The new company would offer air freight forwarder service between all points on the Missouri Pacific System and virtually all national and international locations. A similar subsidiary geared for ocean operations, Missouri Pacific Intermodal Inc., is in operation.

New Pricing Concepts

Service and Industry Promote Traffic Growth

Continued use was made of incentive, volume and trainload pricing concepts to secure new business and to retain traffic which could be diverted to other transport modes. Principal commodities involved in these pricing concepts were anhydrous ammonia, ammonium phosphate, iron ore, grain, coal, coiled steel and molten sulphur.

Coal Gains

Agreements were reached on a unit train coal contract which could eventually produce an additional 6,000,000 tons of coal traffic annually for the Missouri Pacific. The coal will be hauled in shipper-owned cars from fields in southern Illinois to a large electric power generating complex now under construction by Union Electric Company at West Labadie, Missouri. The first of four generating units will go into service this year and an additional unit will be activated each year through 1973. Each unit will require 1,500,000 tons of coal annually. MoPac will also begin another movement to a Union Electric plant in 1970 totaling 800,000 tons of coal annually.

Industrial Expansion

New industry in the area continues to produce future sources of traffic and revenue for MoPac. During the year, 233 firms invested an estimated $457,000,000 in new or expanded facilities along our lines. Since 1965, nearly 1,300 firms have spent close to $2 billion on industrial expansion in our service area. MoPac purchased a 205-acre tract in Austin, Texas, last August, for industrial site development.

Mobile Service

Mobile agency service was extended to shippers in hundreds of smaller communities during 1969 when state regulatory agencies authorized an additional 24 routes. The mobile agent travels over the highway in a radio-equipped office on wheels to the door of the shipper to transact business. The mobile agents now are operating in Missouri, Arkansas, Louisiana, New Mexico, Nebraska and Texas. Shipper reaction has been highly favorable and the system has enabled us to shut down numerous obsolete agencies.

Routes Improved

Among several achievements in the area of creating efficient schedules for MoPac shippers was the establishment of a new southern transcontinental route which enables freight to move coast to coast in five days. MoPac initiated two new trains to carry out its part of the route and participated in the close coordination of schedules among the connecting railroads involved. A run-through service was initiated with the Southern Railway between North Little Rock, Arkansas and Birmingham, Alabama through Memphis, and similar through-train arrangements with connecting lines are under consideration.

Passenger Operations

Six passenger trains were discontinued during 1969 which represent 498,670 train miles and annual out-of-pocket losses of $1,258,182. Decisions are pending on efforts to discontinue four additional trains, two in Texas and two in Missouri, which have a combined annual out-of-pocket loss of $1,012,450.

Modernization Continues

MoPac's 1969 capital improvements program included the purchase of 2,041 new freight cars for $39,196,000 and the acquisition of 24 diesel locomotives. General repairs were performed on 2,639 cars and 425 cars were rebuilt or converted for uses in high shipper demand. The condition of MoPac's freight car fleet is very good with an average of better than 96 per cent of its freight cars and locomotives in good running condition at any given time. During the period 1961–69, MoPac has purchased 380 diesel locomotives and 17,379 freight cars, more than one-third of our total fleet.

Our long-term program of track modernization continued with the laying of 344 miles of rail, nearly all of it continuous welded rail. In addition, 1,185,000 ties were renewed; 1,590,500 cubic yards of ballast was applied, 5,250 miles of track was surfaced and embankment was restored along 400 miles of track. Centralized Traffic Control was extended to an additional 51.5 miles of track, and 11,136 lineal feet of bridges and trestles were constructed.

The second phase of a three-year project to expand a large classification yard at Fort Worth, Texas, and convert it to an automated, electronic hump operation was completed in 1969. The final work will be finished in 1970. We also began construction on a running repair shop for diesel locomotives at North Little Rock and built new yard office buildings at Chicago Heights, Illinois, Tulsa and Houston.

MoPac Steps Toward the 21st Century with TCS

MoPac took a significant step towards improving its service, achieving tighter control of its operations and increasing its profitability by beginning installation of its Transportation Control System.

Car Control

The unique features of TCS are car scheduling and monitoring. Each car on our lines will run on a computer-produced optimum schedule and will be monitored along its route. Any departure from the standard established for the route will be reported immediately to management for correction. TCS will also handle reassignment of empty cars. These features will produce improved car utilization capabilities while providing high standards of quality control over our transportation product. Among the side benefits are: improved communications with shippers and between railroad personnel; improved demurrage, traffic, tracing and car accounting data and real-time facts and figures for analysis of traffic trends.

Customer Service Centers

As a part of TCS, we are establishing a series of Customer Service Centers at 45 points on the Missouri Pacific System. A customer can simply make one telephone call to a Customer Service Center to transact his business with the Company instead of calling several locations. Each of the centers is connected to a central computer in St. Louis for easy access to systemwide information. This connection, for example, makes it possible to trace a customer's car in a matter of seconds. Customer Service Centers have been installed at Little Rock, Memphis and St. Louis and will be added during 1970 at 10 more locations.

Other segments of TCS now in operation on a limited basis are Terminal Car Control—a perpetual inventory system which keeps track of cars in classification yards—and Industry Car Control, a control system which provides precise switching instructions to yard crews serving industrial areas.

It will be several years before TCS is in full operation. Each segment of the system is first tested at one or two points before it is extended to other cities. However, TCS installation is planned in such a way that it produces immediate benefits for both the railroad and its customers as each program refinement is added.

Developing Future Managers

MoPac has long recognized the importance of developing managerial talent from within the Company to meet future management needs. We were among the first railroads to establish a formal management training program which provides opportunities for incoming college graduates and for bright, aggressive men from the ranks to gain some experience in virtually every department of the company before being assigned to a particular department such as Operation or Traffic. Thirteen men entered the management training program during 1969. In addition, a number of college-trained men were hired and assigned directly to positions requiring highly-specialized skills.

During the year, our personnel people conducted 662 on-campus interviews and 135 interviews at other locations such as career day gatherings. Interest in railroad careers definitely has improved at the college level.

MoPac also offers tuition aid to employees who wish to improve their job opportunities through outside education. Two hundred fifty-five employees received tuition aid during the year. In addition, numerous employees attended special training sessions ranging from one-day seminars to the 13-week Harvard University Advanced Management program.

MoPac Assumes Majority Control of C&EI

During 1969, the Chicago & Eastern Illinois Railroad became a majority-owned subsidiary of the Missouri Pacific when, in accordance with I.C.C. requirements, the C&EI sold part of its lines on June 5 to the Louisville & Nashville Railroad. The terms of the sale had been approved by the I.C.C. and resulted in the C&EI's complete disposition to L&N of its line from Evansville, Indiana to Woodland Junction, Illinois, and a half interest to L&N of the line from Woodland Junction to Chicago, in exchange for cash and its own bonds, debentures and stock. The C&EI retains its important sole ownership of the Chicago Heights Terminal Transfer Company and its remaining lines embrace those from Chicago to St. Louis and the route to the Southwest via Thebes in southern Illinois. It will still take some time to put the C&EI in the physical shape it should be to produce a contribution to system net income.

KO&G Dissolved

The Missouri Pacific System, in the interest of corporate simplification, applied during the year to the Interstate Commerce Commission for authority to dissolve its wholly-owned subsidiary, the Kansas, Oklahoma & Gulf Railway, and merge its properties into The Texas & Pacific Railway. Authority was granted in January, 1970, and the transaction will be consummated soon.

Merger Opposed

MoPac continued to oppose the efforts of various western railroads to dismember the Rock Island. The case now awaits an I.C.C. examiner's report. MoPac also continued its opposition to the proposed merger of the Illinois Central and the Gulf, Mobile and Ohio Railroads. This merger represents a dangerous threat to MoPac, particularly in view of alleged control of Illinois Central by Union Pacific, and the interrelation with the Rock Island dismemberment case. The IC-GM&O case also awaits an examiner's report.

Class B Suit

The suit against the Company and certain of its directors brought in the New York City Federal Courts by MoPac Class B stockholders, which seeks higher dividends on that stock, is still pending and no early disposition is anticipated.

Missouri Pacific System

Consolidated Source And Use Of Funds

(In Thousands of Dollars)

	1969	1968
Source of Funds:		
Operations —		
Net income (including extraordinary item)	$ 21,287	$ 22,128
Depreciation and retirements (charges against income not requiring use of funds)	36,349	35,915
Salvage from property sold or retired	8,466	6,743
Proceeds from equipment obligations issued	21,675	31,194
Sale of Santa Fe Industries, Inc. debentures		8,851
Chicago & Eastern Illinois System working capital at acquisition	8,079	
Capital fund deposits (for equipment acquisitions)	3,288	
	99,144	104,831
Use of Funds:		
Property additions	60,974	59,921
Capital fund deposits (for equipment acquisitions)		6,450
Repayments of equipment obligations	24,660	22,614
Reduction of long term debt	2,401	5,562
Dividends (including amounts paid minority interests)	10,490	10,169
Purchase of securities	475	10,142
Other — Net	1,664	(1,212)
	100,664	113,646
Decrease in Working Capital	$ 1,520	$ 8,815

See Notes to Consolidated Financial Statements, Pages 12 and 13

Independent Accountants' Opinion

PRICE WATERHOUSE & CO.
ONE MEMORIAL DRIVE
ST. LOUIS 63102

February 27, 1970

To the Stockholders and Board of Directors of
MISSOURI PACIFIC RAILROAD COMPANY

We have examined the consolidated balance sheet of the Missouri Pacific Railroad Company and its subsidiaries as of December 31, 1969 and the related statements of consolidated income, retained income and source and use of funds for the year. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Because of the characteristics of the company's two classes of stock earnings per share data have been omitted from the accompanying consolidated financial statements (see Notes 5 and 9 to the consolidated financial statements).

In our opinion, except that provision has not been made for deferred federal income taxes as set forth in the supplementary income information and earnings per share data have been omitted, the accompanying consolidated financial statements examined by us present fairly the financial position of the Missouri Pacific Railroad Company and its subsidiaries at December 31, 1969, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated (see Note 1 to the consolidated financial statements).

Price Waterhouse & Co.

Missouri Pacific System

Consolidated Balance Sheet *(In*

Assets	Dec. 31, 1969	Dec. 31, 1968
Current Assets:		
Cash	$ 25,410	$ 25,112
Temporary Cash Investments, at cost (approximates market)	15,641	14,749
Deposits for Interest and Dividends	9,831	8,824
Accounts Receivable	57,760	48,383
Material and Supplies	14,669	13,376
Other Current Assets	3,540	2,279
	126,851	112,723
Properties: (Note 4)		
Road	856,483	814,571
Equipment	791,120	723,367
Miscellaneous	34,743	33,474
	1,682,346	1,571,412
Accumulated Depreciation		
Road	Cr 113,762	Cr 105,606
Equipment	Cr 305,448	Cr 279,634
Miscellaneous	Cr 10,526	Cr 10,109
Excess of Net Assets (at acquisition) of Consolidated Subsidiaries over carrying value of investments	Cr 58,022	Cr 39,389
	1,194,588	1,136,674
Other Assets and Deferred Charges:		
Investment in Santa Fe Industries, Inc. 6¼% Convertible Subordinated Debentures (Approximate Market Value $18,600,000)	24,813	24,813
Investment in Terminal and Other Companies (Note 1)	32,048	35,198
Capital, Insurance and Other Funds	4,651	7,188
Other	6,896	5,167
	68,408	72,366
	$1,389,847	$1,321,763

mo-pac

ousands of Dollars)

Liabilities	Dec. 31, 1969	Dec. 31, 1968
Current Liabilities: (Exclusive of Long Term Debt Due Within One Year)		
Accounts and Wages Payable	$ 57,124	$ 46,605
Interest and Dividends Payable	7,674	7,340
Unmatured Interest Accrued	13,224	13,058
Federal Income Taxes Accrued (Note 2)	5,902	3,395
Other Taxes Accrued	9,587	8,125
Other Current Liabilities	8,171	7,511
	101,682	86,034
Long Term Debt — Due Within One Year (Equipment Obligations)	24,332	22,462
Long Term Debt (Page 11)	704,718	694,990
Other Liabilities and Deferred Credits	17,232	15,376
Equity of Minority Stockholders in Consolidated Subsidiaries (Note 1)	43,946	16,470
Stockholders' Equity: (Notes 1, 5, 6, 7 and 9)		
Capital Stock — No Par Value		
Class A — Authorized 3,000,000 shares; outstanding 1,863,352 and 1,861,577 shares, respectively (excluding 17,600 shares held by Company)	186,335	186,158
Class B — Authorized 1,000,000 shares; outstanding 39,731 shares	3,973	3,973
Capital Surplus	1,548	1,993
Retained Income (Page 11)	306,081	294,307
	497,937	486,431
	$1,389,847	$1,321,763
Commitments and Contingent Liabilities (Note 8)		

See Notes to Consolidated Financial Statements, Pages 12 and 13

Missouri Pacific System

Statement of Consolidated Income

(In Thousands of Dollars)

	1969	1968
Operating Revenues:		
Freight	$465,931	$413,826
Passenger, Mail and Express	10,553	14,447
Switching and Other	18,774	17,476
Total Operating Revenues	495,258	445,749
Operating Expenses: (Note 3)		
Maintenance of Way and Structures (Note 4)	72,717	66,802
Maintenance of Equipment	92,721	83,449
Traffic	13,256	11,792
Transportation	185,363	167,193
General and Miscellaneous	23,044	21,376
Total Operating Expenses	387,101	350,612
Net Revenue from Operations	108,157	95,137
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	35,455	32,585
Equipment and Joint Facility Rents	23,731	19,863
Total Other Operating Charges	59,186	52,448
Net Operating Income (Before Federal Income Taxes)	48,971	42,689
Other Income (Net)	9,577	10,688
Income Available For Fixed Charges (Before Federal Income Taxes)	58,548	53,377
Interest:		
Fixed	24,089	22,927
Contingent	10,482	10,184
Total Interest	34,571	33,111
	23,977	20,266
Federal Income Taxes (Note 2)	2,686	430
	21,291	19,836
Less — Income Applicable to Minority Interests	4	649
Net Income Before Extraordinary Item	21,287	19,187
Extraordinary Item:		
Interline Freight Revenue Accrual Less Applicable Federal Income Tax of $1,055,000		2,941
Net Income (Including Extraordinary Item) (In Conformity with I.C.C. Accounting Principles — Notes 1 and 2)	$ 21,287	$ 22,128

Supplementary Income Information

Net Income Before Extraordinary Item as above (In Conformity with I.C.C. Accounting Principles)	$ 21,287	$ 19,187
Adjustments to Generally Accepted Accounting Principles (Note 2):		
Add or (Deduct) —		
Deferred Federal Income Taxes	(7,086)	(7,849)
Portion of Deferred Federal Income Taxes Applicable to Minority Interests	(61)	344
Net Income Before Extraordinary Item	14,140	11,682
Extraordinary Item:		
Interline Freight Revenue Accrual Less Applicable Federal Income Tax of $1,055,000		2,941
Net Income (Including Extraordinary Item) (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles — Note 1)	$ 14,140	$ 14,623
Depreciation and Retirement Charges Included Above (Note 4)	$ 36,349	$ 35,915

See Notes to Consolidated Financial Statements, Pages 12 and 13

Missouri Pacific System

Consolidated Retained Income

(In Thousands of Dollars)

	1969	1968
Balance at beginning of year:		
As previously reported	$293,535	$280,677
Restatement due to change to equity method of accounting for the Chicago & Eastern Illinois System (Note 1)	772	1,003
As restated	294,307	281,680
Add — Net income (Including Extraordinary Item) (In Conformity with I.C.C. Accounting Principles)	21,287	22,128
	315,594	303,808
Deduct — Cash Dividends —		
Class A Stock — $5.00 per share	9,314	9,302
Class B Stock — $5.00 per share	199	199
Balance at end of year (including $74,214 and $69,927 respectively, appropriated by the Board of Directors) (Notes 5 and 9)	$306,081	$294,307

See Notes to Consolidated Financial Statements, Pages 12 and 13

Long Term Debt

(Including Maturities in 1970)

(In Thousands of Dollars)

	Interest Rate	Date of Maturity	Changes 1969 Issued	Changes 1969 Reacquired	Outstanding December 31, 1969 (excluding amounts held by Company)
Missouri Pacific Railroad Company					
First Mortgage Bonds (1)	4¼%	1990 & 2005		$ 6	$251,516
General Mortgage Bonds (1)	4¾% (2)	2020 & 2030		1,140	115,400
Income Debentures	5% (2)	2045			100,016
Equipment Obligations	3% to 8¼%	1970 to 1984	$21,675	11,783	93,772
Texas and Pacific Railway Company					
First Mortgage Bonds	5%	2000			18,961
Second Mortgage Bonds	5%	2000			73
General & Refunding Mortgage Bonds (1)	3⅞%	1985		1,256	19,977
Equipment Obligations	4⅛% to 8½%	1970 to 1983		4,842	51,978
Chicago & Eastern Illinois Railroad Company					
Income Debentures	5% (2)	2054	1,721 (3)		1,721
Equipment Obligations	5% to 6¾%	1970 to 1982	14,254 (3)	960	13,294
Other Majority Owned Subsidiaries	3½% to 8½%	1970 to 1983	1,009 (3)	7,074	62,342
Grand Total			$38,659	$27,061	$729,050

Equipment Obligations maturing during each of the next five years	1970	1971	1972	1973	1974
	$24,332	$23,009	$22,041	$20,776	$20,025

(1) Have annual sinking fund requirements.
(2) Contingent interest.
(3) Represents bonds and equipment obligations outstanding at the time of majority ownership of the Chicago & Eastern Illinois System by the Missouri Pacific Railroad Company.

Missouri Pacific System

Notes to Consolidated Financial Statements

NOTE 1 — PRINCIPLES OF CONSOLIDATION:

The accompanying consolidated financial statements of the Missouri Pacific System include the accounts of the Missouri Pacific Railroad Company and its majority-owned subsidiaries, principally The Texas and Pacific System (95.8% owned) and, in 1969, the Chicago & Eastern Illinois System (52.8% owned). The 1969 statement of consolidated income includes the revenues and expenses of the Chicago & Eastern Illinois System since June 5, 1969, the date on which ownership by the Missouri Pacific Railroad Company increased to more than 50 per cent, and includes net income prior to that date on the equity method of accounting. The consolidated accounts for the year 1968 have been restated to reflect the Missouri Pacific's investment in the Chicago & Eastern Illinois System on the equity method of accounting. Accordingly, consolidated retained income as of January 1, 1968 was increased by $1,003,000, representing the Missouri Pacific's proportionate share of net income of the C & E I since acquisition; and the 1968 consolidated results on an I.C.C. accounting basis were decreased by $231,000, and on a generally accepted accounting basis by $109,000, representing the Missouri Pacific's proportionate share of the subsidiary's 1968 net loss.

NOTE 2 — FEDERAL INCOME TAXES:

The Company and its railroad subsidiaries maintain their books of account, and the accompanying statements have been prepared, in conformity with principles and methods of accounting prescribed or authorized by the Interstate Commerce Commission. These principles and methods do not require provision for deferred federal income taxes as is required under generally accepted accounting principles.

The supplementary income information shown below the statement of consolidated income reflects the adjustments necessary to present income in conformity with generally accepted accounting principles. The adjustments for deferred federal income taxes provide for the tax effects of all material transactions which enter into the determination of pretax accounting income in one year and of taxable income in a different year. The adjustments necessary to reflect the cumulative tax effects of these transactions and present the accompanying consolidated balance sheet in conformity with generally accepted accounting principles at December 31, 1969 would increase current assets, net properties and deferred credits by $7,900,000, $9,000,000 and $134,600,000, respectively, and decrease current liabilities, equity of minority stockholders and retained income by $5,500,000, $8,000,000 and $104,200,000, respectively.

Investment tax credits applied in reduction of the provisions for current federal income taxes represent the estimated amounts currently realizable and amounted to $1,780,000 and $1,240,000 for 1969 and 1968, respectively. At December 31, 1969, unused investment tax credit carryovers of approximately $22,700,000 are available to offset future years' federal income taxes, subject to a 20% limitation in each of the carryover years. Of the $22,700,000 carryover, $3,300,000 will expire in 1970, $3,300,000 in 1971, $4,800,000 in 1972, $3,500,000 in 1973, $1,400,000 in 1974, $4,300,000 in 1975 and $2,100,000 in 1976 if not used. These expiration dates may be extended up to three years if the carryovers are not used because of the 20% limitation.

NOTE 3 — RETIREMENT PLAN:

The companies have an unfunded noncontributory pension plan for executives, officials and certain key employees. Related charges to operating expense in 1969 and 1968 were approximately $2,539,000 and $2,201,000, respectively, representing accruals which include normal cost and amortization of prior service cost over a period of 35 years, plus interest on the recorded unfunded pension liability.

The actuarially computed value of benefits pertaining to retired employees exceeds the recorded pension plan liability by approximately $17,000,000 at December 31, 1969.

NOTE 4 — PROPERTIES:

Properties are stated at estimated original cost as determined by Interstate Commerce Commission valuations (as of January 1, 1955, date of reorganization, as to the parent company) plus additions and betterments at cost and less retirements since the dates of valuations.

The companies follow the straight-line method of depreciation, using various group rates prescribed by the Interstate Commerce Commission, with respect to equipment and depreciable road properties. However, for rails, ties and other track materials, instead of depreciation accounting, they follow an acceptable alternate practice of "replacement" accounting. Under this method, replacements in kind are charged to expense while additions and betterments (improvements) are capitalized. The amounts capitalized are not depreciated and are charged against income only when the related properties are abandoned.

At December 31, 1969 consolidated nondepreciable properties, including land and land rights, were approximately $539,000,000.

Excess of Net Assets (at acquisition) of Consolidated Subsidiaries over carrying value of investments was increased in 1969 because of the consolidation of the Chicago & Eastern Illinois System (see Note 1). This excess has been reduced by Missouri Pacific's share of the C & E I's loss on the sale of its Evansville Line and on the related retirement of its Danville repair shops, since these transactions were a concurrent part of the Missouri Pacific's reaching majority ownership on June 5, 1969.

NOTE 5 — CAPITAL STOCK AND RETAINED INCOME:

As of December 31, 1969, the Company had outstanding 1,903,083 shares of Capital Stock divided into two classes. Of this total 97.9%, or 1,863,352 shares, were Class A Stock and 2.1% or 39,731 shares were Class B Stock. These shares are without par value, but each has a stated value of $100 per share. Holders of Class A and Class B Stock have full voting rights equal to one vote for each share held, but the Class A and Class B shares are entitled to vote separately as a class upon certain matters, including the issuance of additional shares and modifications of present shares.

Dividends on the Class A Stock are non-cumulative and may not exceed $5 per share in any given calendar year. After dividends of $5 per share have been paid on the Class A Stock in any year, dividends may be paid on the Class B Stock in such amount as the Board of Directors may declare. Dividends on both classes of stock are subject to the setting aside of such reserves and making such other provisions as the Board may deem necessary or advisable for working capital or expansion of the business of the Company, including the acquisition of property, or for other corporate purposes. Undistributed earnings of prior years may be used to pay cash dividends in succeeding years on either class of stock.

In the event of liquidation of the Company the holders of Class A Stock shall be entitled to receive out of the assets the maximum of $100 per share before any distribution is made to the holders of the Class B Stock. Thereafter, the holders of the Class B Stock shall be entitled to receive any further distributions out of the assets of the Company without participation by the Class A holders. Neither the Class A nor Class B Stock is convertible into the other class and neither is subject to redemption.

The provisions of the mortgages and indenture relative to priority of call in each year upon "Available Net Income" (as defined therein) have been satisfied and no restriction on the parent company's retained income at December 31, 1969 exists.

NOTE 6 — STOCK OPTION PLAN:

A Restricted Stock Option Plan reserving 100,000 shares of Class A Stock was approved by the stockholders on May 9, 1961. Under the plan, options granted prior to 1964 are cumulatively exercisable to the extent of 25% in each of the third through sixth years and expire ten years after the date of grant. Options granted in 1964 and subsequent are cumulatively exercisable to the extent of 35% in each of the third and fourth years and 30% in the fifth year and expire five years after the date of grant. No additional options can be granted under the plan. A summary of changes in stock options for the year follows:

	Under Option		*Exercisable*	
	Shares	*Price Range*	*Shares*	*Price Range*
Balance, Jan. 1, 1969	19,625	$44.87-92.50	13,125	$44.87-92.50
Options — Became exercisable			3,500	92.50
Exercised	(1,775)	44.87-59.87	(1,775)	44.87-59.87
Expired	(5,000)	80.37	(5,000)	80.37
Balance, Dec. 31, 1969	12,850	44.87-92.50	9,850	44.87-92.50

The aggregate option price of shares under option at December 31, 1969 was $1,093,000.

For the options exercised in 1969, Class A Stock was credited at $100 per share, an aggregate of $177,500 and the difference between the $100 and the option price was charged to capital surplus, an aggregate of $92,000.

NOTE 7 — CAPITAL SURPLUS:

The Company was ordered by a federal court to pay $353,000 for 2,000 shares of its old securities (issued prior to reorganization) held by an individual. Because suit had been filed on his behalf prior to March 1, 1968 (the deadline for redemption of such securities, as indicated in Note 9 to the 1968 consolidated financial statements) the court ruled the individual was entitled to the award. The payment of this award is reflected in the 1969 consolidated financial statements as a decrease in capital surplus. There was no estimated income tax effect involved.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Company and its railroad subsidiaries lease a general office building and certain transportation equipment under long term lease agreements with total rental obligations extending beyond 1970 of approximately $38,700,000 as of December 31, 1969. In 1970, $3,600,000 of such obligations will be paid.

The Company and its railroad subsidiaries are contingently liable as guarantors, together with other owner railroads, for principal and interest of certain obligations of various affiliated companies aggregating approximately $134,000,000 at December 31, 1969. Under terms of a service interruption policy, the Company and its railroad subsidiaries may be contingently liable for additional premiums up to a maximum of $10,425,000 in the event of work stoppages on other participating roads.

In the opinion of management, the above commitments and contingencies are normal operating arrangements.

NOTE 9 — LEGAL PROCEEDING:

The lawsuit in the New York City Federal Court, brought by the Company's Class B stockholders against the Company and its directors and Mississippi River Corporation, is still pending and it is anticipated that it will be some time before it can be reached for trial. These stockholders, who sue on behalf of all the Class, assert that the dividends paid on the Class B Stock are inadequate and that Mississippi River Corporation is seeking to enrich itself by depriving those stockholders of their share of the Company's earnings. The Courts are asked to order Missouri Pacific and its directors to declare dividends on the Class B Stock in such amounts as the Court shall determine to be just and reasonable out of retained income for the years 1955 through 1967, plus interest thereon, and that defendants be required to pay adequate dividends in the future. It is the position of the Company that the suit is without foundation and it is vigorously defending the same.

Computation And Application Of Available Net Income

Income of Missouri Pacific Railroad Company and Its Wholly-Owned Railway Companies
(as required by the Company's Mortgages and Indenture)
(In Thousands of Dollars)

	1969	1968
Income before Fixed Charges and after Federal Income Taxes	$41,429	$41,761
Income of Wholly-Owned Railway Companies	58	265
Road Property Retired and Charged to Operating Expenses	1,519	2,250
	43,006	44,276
Less — Dividends of 100% Railway Companies included in Missouri Pacific Income	250	450
Total Income Available for Fixed Charges	42,756	43,826
Fixed Charges	15,446	14,718
Available Income	27,310	29,108
Capital Expenditures Fund	4,477	3,859
Remaining Available Income	22,833	25,249
First Mortgage Sinking Fund	771	771
Remaining Income	22,062	24,478
Interest on General Mortgage Bonds, Series A	2,807	2,709
Remaining Income	19,255	21,769
Sinking Fund on General Mortgage Bonds, Series A	350	350
Remaining Income	18,905	21,419
Interest on General Mortgage Bonds, Series B	2,674	2,559
Remaining Income	16,231	18,860
Sinking Fund on General Mortgage Bonds, Series B	338	338
Remaining Income	15,893	18,522
Interest on Income Debentures	5,001	4,916
Balance	$10,892	$13,606

Missouri Pacific Railroad Company

Statement of Income (Corporate)

(In Thousands of Dollars)

	1969	1968
Operating Revenues:		
Freight	$331,172	$307,674
Passenger, Mail and Express	6,845	9,980
Switching and Other	13,615	13,877
Total Operating Revenues	351,632	331,531
Operating Expenses:		
Maintenance of Way and Structures	55,145	52,697
Maintenance of Equipment	58,218	54,903
Traffic	8,447	8,031
Transportation	123,614	117,896
General and Miscellaneous	16,462	16,343
Total Operating Expenses	261,886	249,870
Net Revenue from Operations	89,746	81,661
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	24,922	24,105
Equipment and Joint Facility Rents	34,734	32,053
Total Other Operating Charges	59,656	56,158
Net Operating Income (Before Federal Income Taxes)	30,090	25,503
Other Income (Net):		
Intercompany Dividends (Eliminated in Consolidation)	6,719	5,739
Other, Net	5,761	8,252
Total Other Income	12,480	13,991
Income Available For Fixed Charges (Before Federal Income Taxes)	42,570	39,494
Interest:		
Fixed	15,446	14,718
Contingent	10,482	10,184
Total Interest	25,928	24,902
	16,642	14,592
Federal Income Taxes	1,141	Cr 65
Net Income Before Extraordinary Item	15,501	14,657
Extraordinary Item:		
Interline Freight Revenue Accrual		2,202
Net Income (Including Extraordinary Item) (In Conformity with I.C.C. Accounting Principles)	$ 15,501	$ 16,859

Supplementary Income Information

Net Income Before Extraordinary Item as above (In Conformity with I.C.C. Accounting Principles)	$ 15,501	$ 14,657
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	(2,540)	(3,007)
Net Income Before Extraordinary Item	12,961	11,650
Extraordinary Item: Interline Freight Revenue Accrual		2,202
Net Income (Including Extraordinary Item) (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles)	$ 12,961	$ 13,852
Depreciation and Retirement Charges Included Above	$ 21,226	$ 21,486

Texas and Pacific System

(Owned 95.8% By Missouri Pacific Railroad Company)

Statement of Consolidated Income

(In Thousands of Dollars)

	1969	1968
Operating Revenues:		
Freight	$ 95,404	$ 86,825
Passenger, Mail and Express	3,606	4,467
Switching and Other	2,578	2,660
Total Operating Revenues	101,588	93,952
Operating Expenses:		
Maintenance of Way and Structures	12,015	12,579
Maintenance of Equipment	18,623	17,349
Traffic	3,486	3,255
Transportation	41,043	38,858
General and Miscellaneous	4,372	4,166
Total Operating Expenses	79,539	76,207
Net Revenue from Operations	22,049	17,745
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	6,395	6,058
Equipment and Joint Facility Rents	3,642	2,946
Total Other Operating Charges	10,037	9,004
Net Operating Income (Before Federal Income Taxes)	12,012	8,741
Other Income (Net)	2,503	1,693
Income Available For Fixed Charges (Before Federal Income Taxes)	14,515	10,434
Fixed Interest	5,618	5,580
	8,897	4,854
Federal Income Taxes	578	Cr 364
	8,319	5,218
Add-Loss Applicable to Minority Interests	38	44
Net Income Before Extraordinary Item	8,357	5,262
Extraordinary Item:		
Interline Freight Revenue Accrual		739
Net Income (Including Extraordinary Item) (In Conformity with I.C.C. Accounting Principles)	$ 8,357	$ 6,001

Supplementary Income Information

Net Income Before Extraordinary Item as above (In Conformity with I.C.C. Accounting Principles)	$ 8,357	$ 5,262
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	(3,503)	(3,126)
Net Income Before Extraordinary Item	4,854	2,136
Extraordinary Item: Interline Freight Revenue Accrual		739
Net Income (Including Extraordinary Item) (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles)	$ 4,854	$ 2,875
Depreciation and Retirement Charges Included Above	$ 7,529	$ 7,992

Chicago & Eastern Illinois System

(Owned 52.8% By Missouri Pacific Railroad Company)

Statement of Consolidated Income

(In Thousands of Dollars)

	1969	1968
Operating Revenues:		
Freight	$ 35,887	$ 44,925
Passenger, Mail and Express	631	1,187
Switching and Other	3,335	3,665
Total Operating Revenues	39,853	49,777
Operating Expenses:		
Maintenance of Way and Structures	7,981	8,287
Maintenance of Equipment	7,429	9,106
Traffic	1,487	1,632
Transportation	14,165	18,110
General and Miscellaneous	2,067	2,960
Total Operating Expenses	33,129	40,095
Net Revenue from Operations	6,724	9,682
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	2,813	3,376
Equipment and Joint Facility Rents	4,021	5,179
Total Other Operating Charges	6,834	8,555
Net Operating Income (Loss) (Before Federal Income Taxes)	(110)	1,127
Other Income (Net)	525	275
Income Available for Fixed Charges (Before Federal Income Taxes)	415	1,402
Fixed Interest	1,505	2,089
	(1,090)	(687)
Federal Income Tax Refund		99
Net Loss Before Extraordinary Items	(1,090)	(588)
Extraordinary Items	(4,358)	
Net Loss (Including Extraordinary Items) (In Conformity with I.C.C. Accounting Principles)	$ (5,448)	$ (588)

Supplementary Income Information

Net Loss Before Extraordinary Items as above (In Conformity with I.C.C. Accounting Principles)	$ (1,090)	$ (588)
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	576	330
Net Loss Before Extraordinary Items	(514)	(258)
Extraordinary Items:		
Extraordinary Items as above (In Conformity with I.C.C. Accounting Principles)	(4,358)	
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	2,891	
	(1,467)	
Net Loss (Including Extraordinary Items) (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles)	$ (1,981)	$ (258)
Depreciation and Retirement Charges Included Above	$ 4,615	$ 3,067

mo-pac

Board of Directors

WILLIAM B. BATES
Senior Partner, law firm of Fulbright, Crooker Freeman, Bates & Jaworski, Houston

†**SAM B. COOK**
President, The Central Trust Bank, Jefferson City

*††**ROBERT H. CRAFT**
Chairman Finance Committee, Financial Vice President and Director, Mississippi River Corp., New York

***T. C. DAVIS**
Corporate Director, New York

***S. M. DIXON**
President, S. M. Dixon Construction Co., Warren, Ark.

R. A. GOODSON
President, Southwestern Bell Telephone Company, St. Louis

***HERBERT GUSSMAN**
Independent Oil Producer and Investments, Tulsa

*†**D. B. JENKS**
President, Missouri Pacific Railroad Company, Chairman of the Board, The Texas and Pacific Railway Company and President, Mississippi River Corp., St. Louis

JAMES LEE JOHNSON
Retired, St. Louis

JAMES M. KEMPER, JR.
Chairman of the Board, Commerce Bank of Kansas City, Kansas City

***A. W. MANLEY**
Senior Vice President and Director Mississippi River Corp., President, River Corp., St. Louis

†WILLIAM G. MARBURY**
Chairman of the Board, Mississippi River Corp.
Chairman of the Board, Missouri Pacific Railroad, St. Louis

THOMAS F. MILBANK
Estate Management and Corporate Executive, New York

J. T. SUGGS
Retired, Dallas

†**RAYMOND V. TERRY**
Executive Vice President and Director Mississippi River Corp.
President, Mississippi River Transmission Corp., St. Louis

*Executive Committee;
†Finance Committee;
**Chairman of Executive Committee;
††Chairman of Finance Committee.

Officers

D. B. JENKS
President, St. Louis

J. H. LLOYD
Executive Vice President, St. Louis

D. L. MANION
Vice President-Operation

M. M. HENNELLY
Vice President and General Counsel, St. Louis

J. A. AUSTIN
Vice President-Traffic, St. Louis

J. E. ANGST
Vice President, St. Louis

H. M. HOFFMEISTER
Vice President-Purchases & Materials, St. Louis

J. G. SHEPPARD
Vice President, Houston

J. N. SANDERS
Vice President, Kansas City

F. E. RICHTER
Vice President, Washington, D.C.

J. C. SELOVER
Vice President, Dallas

T. D. RODMAN
Controller, St. Louis

L. A. BRUNS
Treasurer, St. Louis

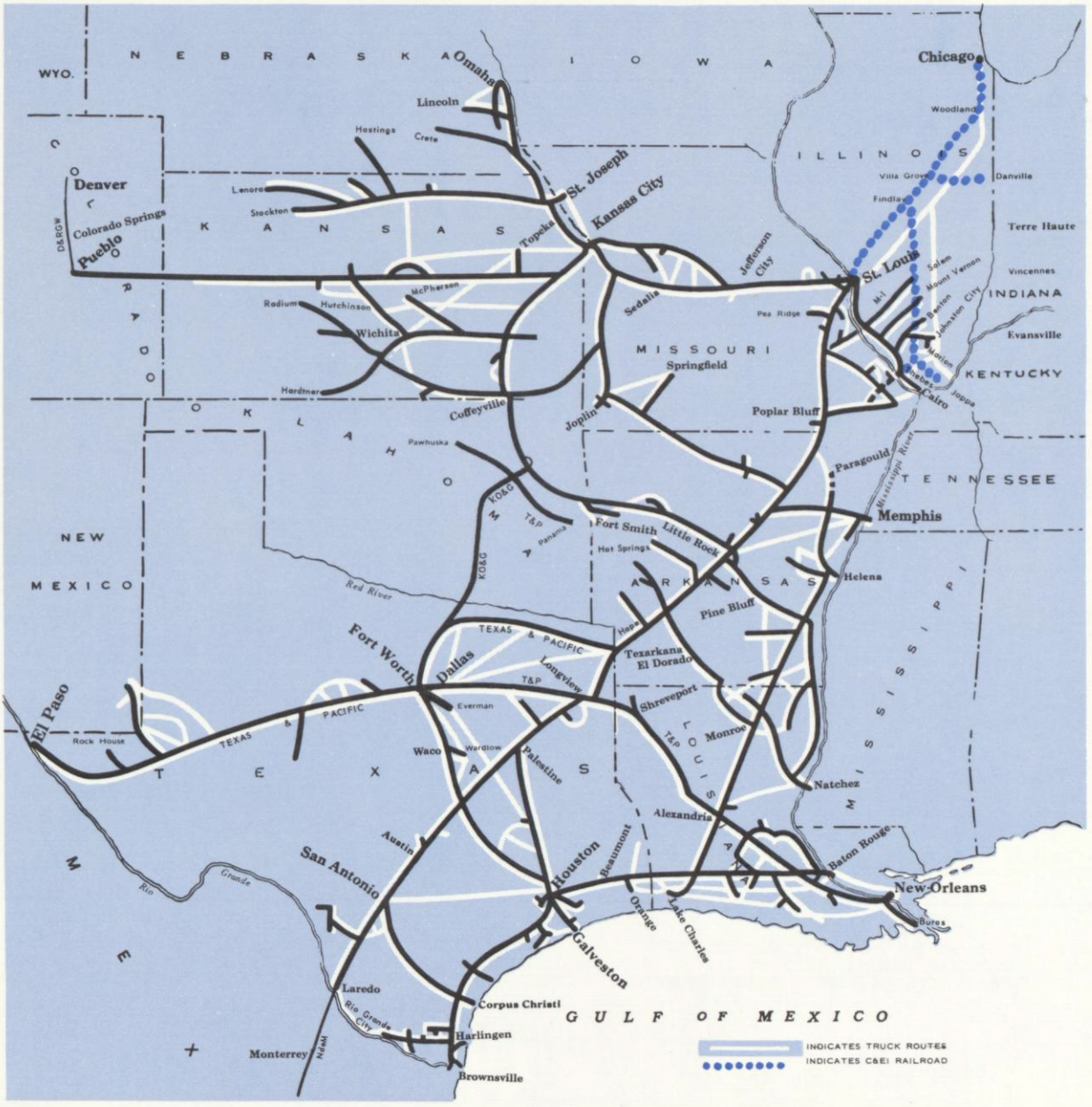
C. A. ROCKWELL
Secretary, St. Louis

THE TRUCK-RAIL NETWORK OF THE SYSTEM LINES

The Missouri Pacific—Texas & Pacific System totals 11,840 miles of railroad in an area extending from the Mississippi River on the east, to the Colorado Rockies, from Omaha and St. Louis on the north, to the Gulf of Mexico and the Rio Grande.

Its on-line territory, in which traffic originates and terminates, includes 12 states in the midwest, south and southwest. With gateways to and from the west at Pueblo and El Paso, and to the east at St. Louis, Memphis and New Orleans, the MP—T&P combination provides an exceptionally wide choice of routes for overhead east-west traffic. Handling substantial volumes of export-import traffic through 11 Gulf ports and through the Brownsville, Laredo and El Paso gateways to Mexico, it is an important link in foreign commerce as well as one of the nation's major domestic carriers.

Supplementing the rail lines is a network of some 17,000 miles of truck routes operated by Missouri Pacific Truck Lines, Inc., and The Texas & Pacific Motor Transport Company. Much of the highway mileage parallels the rail lines but many routes provide scheduled freight service to places not reached by the railroads. The two highway subsidiaries also perform all the terminal and piggyback ramp loading and unloading for Missouri Pacific Railroad—Texas & Pacific Railway billed traffic and over-the-highway service for piggyback traffic.



Office of the Secretary
MISSOURI PACIFIC RAILROAD CO.
2206 Missouri Pacific Bldg.
210 N. 13th St., St. Louis, Mo. 63103

mo-pac